How boards can execute governance reviews to improve performance

Sound governance is the foundation for corporate performance. It establishes principles that define and support the culture and decisions needed for leadership to organize and successfully execute strategies that enhance corporate performance, value, and trust. Too often, however, governance is viewed as a legal exercise rather than an opportunity to advance corporate performance in service to stakeholder priorities.

The annual board governance review—standard practice for public companies listed on the major U.S. stock exchanges—is a prime example of how companies can miss opportunities to govern in ways that drive performance. Boards often treat the review as a benchmarking and compliance exercise –revising governance guidelines, board committee charters, and other core governance documents to be in line with regulations, peers, and relevant industry and market practices. This approach has pitfalls, especially since a company's governing documents contribute significantly to corporate identity. When a company doesn't walk its talk, performance and reputation (along with leadership) will suffer.

Done well, the governance review is an opportunity to produce a tailored governance program that fully supports leadership objectives and key stakeholder priorities and enhances leadership's capabilities and accountability for achieving performance. When boards examine how governance is enabling desired performance (or not), they can act—including by realigning corporate culture and strategy, strengthening stakeholder engagement, adjusting CEO and executive compensation (if not composition), and making changes to the board itself.

Below, we describe ways boards can execute the governance review to improve corporate performance.

> **The standard corporate governance review does not meet basic cost-benefit tests.**

First things first: Defining "performance" and "governance"

Corporate "performance" is the measure of how well a company achieves its mission and goals. There is a direct link between performance and corporate governance—when governance promotes the right leadership and performance metrics.

To design and achieve desired performance goals, boards, and management must have a shared vision informed by stakeholder priorities for the business and its operations. With this vision and a sound governance program, boards and management can develop meaningful performance goals and metrics for leadership accountability, financial matters, operations, people, technology, and other factors that contribute to overall performance.

"Corporate governance" spells out how a company and its leadership and people go about maintaining alignment on corporate mission, vision, culture, strategy, and performance. But it is often defined narrowly, as board and corporate policies, procedures, and controls that are intended to be responsive to applicable regulations, general market standards, and influential investor interests.

There are problems with this definition. For one, it begs the question: what is meant by policies, procedures, and controls? It also implies that policies, procedures, and control mechanisms may need to change whenever regulation, markets, and investors change. If true, that would create confusion, bureaucracy, and inefficiency.

High-performing companies rely on foresighted principles and ethics-based governance that provide clear guidance across business issues and environments and make it easier to execute strategy and encourage the mindsets and behaviors to deliver desired performance. Policies, procedures, and controls are essential, but they spring from, rather than define, governance.

Governing the information infrastructure

A performance-oriented governance review should include an assessment of the company's information infrastructure. Governance and performance depend on the right people having the right information at the right time. Both boards and management must find ways to upgrade the company's ability to sort through and quickly metabolize vast amounts of shifting information. New data analytics tools such as generative AI have great potential for developing insights from financial and operational data. Bringing in outside perspectives and expertise is another way to unearth new intelligence for board decision making. Boards should push management to keep ahead of evolving information and analytical needs.

Using the governance review to enhance board and executive effectiveness

The governance review should start with an understanding of the roles, responsibilities, and qualifications of board members and executive management. These are critical performance variables that are articulated in core governance documents.

The primary function of sound governance is to maintain effective leadership that meets evolving demands. Institutional and activist investors and other market participants recognize this and often look to influence, if not effect, changes in governance practices and/ or board and executive team composition to address perceived performance deficiencies.

Standard public company practice puts independent nominating and governance committees in charge of the annual governance review. This makes sense since the core work of these committees is to lead on board composition, evaluation, structure, and governance. But this can be a circular exercise since the committee is, in essence, reviewing its own work.

Boards can move past standard practices and tie governance more directly to performance. To do this, boards should engage their members, management, and external advisors to help determine how well the governance program is driving board and executive effectiveness and guiding and facilitating mission-critical strategies and operations. These can include governance of issues such as technology transformation and cybersecurity threats, as well as defining organizational principles, such as how culture and compliance are lived, authority is delegated, and talent is managed.

The process of defining and updating the governance program should include the perspectives of external advisors, particularly those that already work with the company on material projects and can assess how well corporate processes and operations are driving performance under changing business conditions and trends.

Expanding the governance review (and governance program) to flexibly address fresh challenges and opportunities can strengthen leadership, sharpen strategy and operations, and improve performance—taking the governance review far beyond documenting and benchmarking governance

When the scope of the governance review is widened, it should identify gaps between governance and performance to be addressed. These are some typical action items that may result:

- Information infrastructure improvements that promote insights, breakthroughs, operations, and performance
- Strategies to improve culture and compliance
- Clearer operational and performance metrics
- More direct link between pay and performance
- Improvements to financial reporting and business communications
- Engagement strategies that enhance stakeholder understanding and trust

Expanding the governance review to improve performance

The review agenda should start with discussions about how the governance program and principles enable appropriate oversight, leadership, management, and execution of the company's mission, stakeholder priorities, and performance goals. The review should also focus on the quality of the information infrastructure that informs the board and management on these and other mission-critical matters as well as the company's business environment, competitive pressures, and relevant risks and opportunities.

A performance-oriented governance review pulls in work boards do around strategy, director nominations, board evaluation, CEO and executive performance and compensation, and other mission-critical matters. It therefore calls for boards to weave some of their most important workstreams more closely together and to collaborate with management and the company's strategic advisors on the review, which can result in synergies and clearer insights for governance to improve corporate performance in service to relevant stakeholder priorities.

The following table lays out how the standard governance review generally works today and potential perspective and procedural shifts that expand and focus the governance review to improve performance.

From	To
Annual review of Core Governance Documents	Regular oversight of how governance supports strategy, drives performance, and aligns with stakeholder needs
Stand-alone project led by the nominating and corporate governance committee	Cross-functional project led by the board or an ad hoc board committee and executive leadership
Review facilitated by legal team	Review facilitated by legal team with regular input from external industry, business, and governance experts
Review agenda • Corporate governance guidelines • Board committee charters • Board minutes • Board and executive succession planning • Code of business conduct and ethics • D&O questionnaire (collectively "Core Governance Documents")	Review agenda • Core Governance Documents • Leadership's information infrastructures and reporting, including board materials and chief operating decision maker's (CODM) package • Board and individual director effectiveness evaluations • Board and executive succession pipeline data • Culture, employee engagement, training, and whistleblower programs • Investor relations reports on shareholders and their priorities • Management report on stakeholder (customers, employees, suppliers, communities) priorities
Core Governance Documents benchmarked against peers and "leading" governance practices	Core Governance Documents and other mission-critical policies and procedures benchmarked against the company's stated purpose, performance goals, and select direct and aspirational peers
Set next year's board and committee calendars and agendas based on the current year calendar and agenda	Add flexibility to core board and committee calendars to accommodate dynamic strategic planning and oversight
Generic governance disclosures	Tailored "decision-useful" annual disclosures that explain how the company's governance programs align with leadership composition and corporate goals and performance

Transformation governance

Business transformations are among the most important, expensive, and difficult strategic investments that companies make. In a recent KPMG survey, transformation leaders across industries estimated that only 19 percent of transformation projects returned significant value.1 This poor performance is attributable to governance failures, including insufficient engagement by top leaders and unclear connection to strategy, among other factors. When leaders decide on a business transformation or any other mission-critical objective, they must design and activate parallel governance and leadership capabilities, so the transformation fully meets intended performance outcomes.

The review should prompt tactical enhancements to board calendars, meeting agendas, reporting protocols, and materials. Other review outcomes may include:

- Refreshing board and executive leadership qualifications, roles, and responsibilities
- Refining corporate performance measurements
- Clarifying management's responsibilities and reporting on how it identifies and engages with relevant stakeholders and prioritizes their needs
- Cultural shifts that better support strategic priorities and performance goals
- A reinvigorated tone from the top that strengthens stakeholder engagement, trust, and loyalty

Most importantly, the review should result in critical milestones that the board and executive management must meet to effectuate goals for improving leadership and performance.

To build trust with investors and other key stakeholders, the results of the review should be thoughtfully articulated in the company's core governance documents and relevant public disclosures. The review should also prompt tactical enhancements to board calendars, meeting agendas, reporting protocols, and materials. Board operations can adjust to accommodate more dynamic leadership, performance goal setting, and corresponding strategies as facilitated by sound governance principles.

The payoff

Standard-practice governance reviews do not meet basic cost-benefit tests. They take time and resources and significantly impact corporate identity but do not provide sufficient benefits, other than avoiding basic legal, compliance, and disclosure issues. By formulating sound governance principles and linking governance to leadership and performance, boards enhance their effectiveness and promote more constructive stakeholder engagement, an appropriately dynamic corporate strategy, and the culture and accountability processes to drive strategy and improve performance consistent with mission.

By shifting the governance review from an annual legal exercise to an ongoing strategic exercise aligned with other critical board strategic and governance work, board and executive leadership can expand the company's ability to metabolize and manage change and uncertainty, thereby improving performance. Enhanced governance programs, strategically refreshed and articulated in alignment with guiding principles, will also reinvigorate boards and management to lead with more clarity and impact.

[1] See "The new transformation agenda," KPMG LLP, 2023

How KPMG can help

We work closely with diverse clients globally at every step in their lifecycle, giving us exceptionally deep and practical governance insights. With expansive knowledge and experience across industries, countries, and business matters, we deploy integrated, cross-functional business strategy and governance approaches to help our clients optimize their performance and drive growth across multiple dimensions while navigating economic and geopolitical volatility, technological change, and market and societal shifts. Whether working on IPO readiness, corporate transformation, strategic shifts, or deployment of new technology, we bring the correct mix of capabilities and teaming to address client priorities thoughtfully.

KPMG is uniquely positioned to help clients succeed with a portfolio of governance solutions:

- **Governance journey:** Staying abreast of conditions and information; regularly strategize, prioritize, and guide governance standards, and practices that maintain clear alignment with strategy and performance goals.
- **Elevate:** Performance improvement initiatives.
- **Connected:** A tailored approach to digital transformation that focuses enterprise, operations, and technology on meeting customer, employee, and stakeholder expectations.
- **Powered:** A set of digital solutions that helps clients transform business functions.
- **Trusted:** Helping clients build confidence in their governance, leadership, and strategy by predictably navigating risk, opportunity, and regulation.

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